

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Airports Public Works	(2) MEETING DATE 11/22/2016	(3) CONTACT/PHONE Kevin Bumen, Director 781-5205 Robert Ruiz, Project Manager 788-2114	
(4) SUBJECT Authorize a budget adjustment in the amount of \$4,050,000 from the Tax Reduction Reserve Fund and the Airports Enterprise Fund to increase the construction contingency and amend the soft cost budget for the San Luis Obispo County Regional Airport new terminal project, by 4/5ths vote; and direct staff to amend consultant services contracts. Project is located at 975 Airport Drive, San Luis Obispo. District 3.			
(5) RECOMMENDED ACTION It is recommended that your Board: <ol style="list-style-type: none"> <li>1. Authorize the use of the Tax Reduction Reserve Fund as the funding source to increase the Tax Reduction Reserve Airport Terminal Designation in the amount of \$3,604,500</li> <li>2. Authorize a budget adjustment in the amount of \$4,050,000 using \$3,604,500 from the Tax Reduction Reserve Fund Airport Terminal Designation and \$445,500 from Unrestricted Net Assets of the Airport Enterprise Fund to increase construction contingency and soft cost budget to the Airport-SLO-Construction Passenger Terminal project budget, by a 4/5 vote; and</li> <li>3. Direct staff to amend consultant services contracts with Construction Manager, ARCADIS; Inspector of Record, NV5; Special Inspector, Earth Systems Pacific; and Architect/Engineer, RS&amp;H California, Inc.</li> </ol>			
(6) FUNDING SOURCE(S) Tax Reduction Reserve Fund and Airport Fund Balance	(7) CURRENT YEAR FINANCIAL IMPACT \$4,050,000	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____ ) <input type="checkbox"/> Board Business (Time Est. ____ )			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: 1617044 <input checked="" type="checkbox"/> 4/5 Vote Required <input type="checkbox"/> N/A	
(14) LOCATION MAP Attached	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A    Date: <u>9/13/16</u> , <u>2/9/16</u> , <u>1/5/16</u> , <u>12/8/15</u> , <u>10/6/15</u> , <u>8/11/15</u> , <u>3/17/2015</u> , <u>10/28/2014</u> , <u>7/15/2014</u> , <u>3/11/2014</u> , <u>11/5/2013</u> , <u>9/24/2013</u> , <u>7/23/2013</u> , <u>3/5/2013</u>	
(17) ADMINISTRATIVE OFFICE REVIEW David E. Grim			
(18) SUPERVISOR DISTRICT(S) District 3			

# County of San Luis Obispo



TO: Board of Supervisors

FROM: Airports / Kevin Bumen, Director

781-5205

Robert Ruiz, Project Manager

788-2114

DATE: 11/22/2016

SUBJECT: Authorize a budget adjustment in the amount of \$4,050,000 from the Tax Reduction Reserve Fund and the Airports Enterprise Fund to increase the construction contingency and amend the soft cost budget for the San Luis Obispo County Regional Airport new terminal project, by 4/5ths vote; and direct staff to amend consultant services contracts. Project is located at 975 Airport Drive, San Luis Obispo. District 3.

## **RECOMMENDATION**

It is recommended that your Board:

1. Authorize the use of the Tax Reduction Reserve Fund as the funding source to increase the Tax Reduction Reserve Airport Terminal Designation in the amount of \$3,604,500
2. Authorize a budget adjustment in the amount of \$4,050,000 using \$3,604,500 from the Tax Reduction Reserve Fund Airport Terminal Designation and \$445,500 from Unrestricted Net Assets of the Airport Enterprise Fund to increase construction contingency and soft cost budget to the Airport-SLO-Construction Passenger Terminal project budget, by a 4/5 vote; and
3. Direct staff to amend consultant services contracts with Construction Manager, ARCADIS; Inspector of Record, NV5; Special Inspector, Earth Systems Pacific; and Architect/Engineer, RS&H California, Inc.

## **DISCUSSION**

On September 13, 2016, an update was provided to the Board of Supervisors on the current status of the San Luis Obispo County Regional Airport new terminal project. Among the issues discussed was the need to amend the consultant contracts and the construction contingency and soft costs budget. This item outlines the actions that are necessary to keep the project moving forward.

### **Background**

On August 11, 2015, your Board authorized project 330023 – Airport-SLO-Construction Passenger Terminal (the “Project”) with a total Project budget of \$35,422,008. Board action also authorized Airports to move forward with construction of the Project, awarded the construction contract to Q&D Construction (Contractor), and awarded a Construction Management (CM) Services contract to Arcadis U.S. Inc.

A Notice to Proceed was issued to the Contractor on October 2, 2015, with an initial contract duration of 730 days (24 months), which has since been extended 30 days because of inclement weather experienced last winter. Although the construction contract was for 24 months, the Contractor submitted a baseline schedule indicating that it could complete construction early in 16 months. Subsequently, two of four consultant services contracts entered into by the County were set up for a 16-month duration which would have matched the Contractor’s forecasted early completion timeline.

Change orders issued to date have added extra work and some work activities performed to date have taken longer to complete than the Contractor forecasted prior to the start of construction. Therefore, the Contractor has pushed back its anticipated completion date which remains within the current 760-day contract time. The Contractor’s current completion date is now forecasted to occur in late July 2017, while the current construction contract time runs through October 31,

2017. Amendments to consultant services contracts, the construction contingency and soft cost budget are needed to ensure that the project has the required professional services and the financial resources to support the project through completion of construction.

#### I. Current Construction Status

Construction of the nearly 57,000 s.f. terminal building and associated infrastructure and site work has been ongoing for 13 months which is 52% of the current construction contract time. Contractor billings to date are 50% of the contract value.

Elements of construction completed so far include demolition of pre-existing facilities, earthwork, building foundation, underground/under slab utilities and the slab on grade, erection of structural steel, the baggage tunnel, CMU placement and some site work. Elements currently in progress include roofing, framing of walls, interior mechanical, electrical and plumbing, and weather proofing the building. Site work and work on the vertical node is also ongoing.

#### II. Project Budget and Expenditures to Date

The Project is funded by various sources which include FAA Airport Improvement Program (AIP) grants, on hand reserves from Airport fees for Passenger Facility Charges (PFC's) and Customer Facility Charges (CFC's) along with internal and third party (IBank) financing. The funding amount from each of these sources is as follows:

<u>Funding Source</u>	<u>Amount</u>
FAA Airport Improvement Program Grants (AIP)	\$24,190,687
Passenger Facility Charges (PFC's) on hand	\$ 1,774,718
Customer Facility Charges (CFC's) on hand	\$ 339,802
Third Party Financing (IBank)	\$ 6,000,000
Contingencies (Internal Loan)	<u>\$ 3,116,801</u>
	\$35,422,008

Project expenditures through October 2016 total \$18,335,332 and are itemized against the Project budget below:

<u>Item</u>	<u>Budget</u>	<u>Costs through October 2016</u>	<u>% of Budget</u>
Construction	\$27,500,000	\$13,735,863	50%
Furniture Procurement	\$ 1,077,184	\$ 0	0%
Soft Costs	\$ 3,668,023	\$ 2,976,590	81%
Debt Issuance Costs	\$ 60,000	\$ 0	0%
Construction Contingencies	\$ 2,750,000	\$ 1,496,508	54%
Soft Cost Contingencies	<u>\$ 366,801</u>	<u>\$ 146,371</u>	<u>40%</u>
Total	\$35,422,008	<b>\$18,335,332</b>	52%

Soft costs are expenses for professional support services, staff time, printing fees, etc., which are not direct construction costs. Costs to relocate existing overhead utility lines underground, for constructing street lights along the new terminal frontage were not included in the invitation to Bid, Contractor's bid or budgeted prior to construction. Completion of this work is essential for terminal operations so the contractor was directed to perform this work. Costs for this work are payable with construction contingency funds and are denoted with an \* in the following contingency expenditure breakdown:

Construction Contingency:	Earth Work Change Orders	\$ 847,000
	Street Lights	\$ 106,449*
	Conversion of existing overhead utilities to underground	\$ 128,581*
	Changes/additions essential for operations	<u>\$ 414,478</u>
		\$1,496,508
Soft Cost Contingency:	Consultant Reimbursables	\$ 62,600
	Utility Company Engineering and Const. Costs	<u>\$ 83,771*</u>
		\$ 146,371

#### III. Need to Amend Consultant Contracts

Amendments to consultant contracts and Project contingencies are needed to ensure that the County has the professional support and the financial resources needed to continue with the Project through the end of construction. The need for consultant amendment is as follows:

Professional Service Contracts:

a. Architectural/Engineering and Inspector of Record:

The Architect/Engineer and Inspector of Record are currently under contract for 16 months from the start of construction, which is through February 2017. This is in line with the early completion forecasted by the contractor prior to start of construction. Construction is now expected to continue to near the full term of the contract so these contracts need to be extended to ensure that the County has the needed professional support through the life of construction. Consultant contract amendments for the Architectural/Engineering and Inspector of Record will be set up so that costs beyond the 16-month duration specified in the original contracts are paid on actual labor hours expended. Contract amendments will ensure that each contract is amended with enough budget for labor hours through the duration of the construction contract. However, contract amendments will be for not-to-exceed amounts with any unused budget reverting to the Tax Reduction Reserve Fund.

b. Special Inspector:

Change Orders 2 and 3 previously approved by your Board added approximately \$850,000 worth of work to the construction contract to address unforeseen conditions encountered at the site during earthwork operations. This extra work required additional supervision and inspection not included in the Special Inspector's original contract. Also, off site manufacture of structural steel used on the project took longer to complete than forecasted. For quality assurance purposes, the structural steel manufacture process is monitored by the Special Inspector and the initial line item allocated for structural steel monitoring in the Special Inspector's budget was exceeded due to the longer manufacture time. An amendment to the Special Inspector's contract is now needed to ensure enough budget is available for special inspections through the end of construction.

c. Construction Manager (CM):

The CM's original proposal was to have three full time employees through the life of construction. At the request of the County, and in hopes of managing costs, the CM's staffing plan was reduced to two full time employees with the understanding that if there were issues during construction, that required it, the staffing plan would be adjusted accordingly. In Mid December 2015, it was acknowledged that two full time employees were not adequate to fully administer the Project and to keep pace with and manage claims and delay notices received from the Contractor. A third position was added on a temporary basis which has accelerated the burn rate through their budget. The project's pace has not slowed nor is it expected to, therefore the demand for added CM staff has been and will be constant throughout the life of construction.

In addition, the CM has agreed to provide the transition planning and to guide Airport staff through a sub-consultant (Chrysalis Consulting) with the coordination and execution effort needed to ensure a seamless transition of terminal operations from the existing terminal to the new terminal. This effort was unbudgeted at Project outset but its inclusion is essential for a successful transition into the new terminal. Some tasks associated with the transition plan include detailed coordination with stakeholders, marketing of the new terminal and ensuring that signage and wayfinding is installed or repurposed on Airport property to direct the public to the new terminal after operations in the new terminal commence.

Amending the CM's consultant contract will ensure that the CM team continues to have adequate staff to manage the Project and to mitigate risk to the County through project completion. It will also provide the guidance County staff needs to ensure a successful transition plan is prepared and implemented to move operations from the exiting terminal to the new terminal.

Consultant amendments will provide each consultant with enough budget to support the project through the end of the construction contract time. However, the amendments will be set up for not to exceed amounts and any cost beyond the fee specified in the original contacts will be paid on actual and necessary labor hours expended beyond the labor hours allocated in the original consultant contracts. If construction is completed early or if at completion of construction amended consultant budgets are not exhausted, all unused budgets will revert to the County. Consultant contract values, including requested amendments, are as follows:

	<u>Original Contract</u>	<u>Amendment</u>	<u>Total</u>
Inspector or Record	\$ 597,836.50	<b>\$200,000</b>	\$ 793,836.50
Special Inspector	\$ 394,202.00	<b>\$ 50,000</b>	\$ 444,202.00
Architect/Engineer	\$1,314,865.00	<b>\$675,000</b>	\$1,989,865.00

Construction Manager	\$1,067,400.00	<u>\$675,000</u>	\$1,742,400.00
		<b>\$1,600,000</b>	

#### IV. Need to Amend Construction Contingency and Soft Cost Budget

Amendments to the construction contingency and Project soft cost budget are needed to ensure the project has the needed financial and oversight resources throughout construction. The need for amending each is as follows:

##### Contingencies:

##### a. Construction Contingencies:

The original Project budget included \$2,750,000 for construction contingencies. Ten change orders have been issued to date for various items with a total value of \$1,496,508 (see Exhibit 2). An additional approximate \$605,585 worth of extra work essential for terminal operations is currently being negotiated with the contractor and additional funding is being held by the County's oversight team for potential contractor disputes for work performed. Together, this accounts for \$2,102,093 (76%) of the original construction contingency amount. If final negotiated costs for extra work and total County liability for disputes dissipates, the difference will remain as available contingency.

The accelerated construction contingency burn rate experienced in the first half of construction is a result of having to deal with a few high cost items. Namely change orders 2 and 3 which addressed unforeseen soil conditions and having to pay for unbudgeted costs related to relocating existing overhead utility lines underground and for the construction of street lights along the new terminal frontage as described in Section II above. The FAA has confirmed that approximately \$963,857 of costs related to these high cost additions are eligible for reimbursement consistent with other grant funding. The additional grant funding for these changes and additions and any future changes or additions deemed eligible for reimbursement will be awarded at Project completion. Exhibit 2 illustrates how the FAA reimbursement amount is calculated.

To keep the Project moving forward and to ensure sufficient financial resources exists for unknown extra work, or issues that may arise as the Project moves through to completion of construction, the construction contingency needs to be amended. The construction contingency amendment request is for \$2,000,000, with any unused portion at Project completion to remain with the County.

##### b. Post Construction Storm Water Requirements:

Upon completion of a recent consultation with the Regional Water Quality Board staff regarding the project's storm water and water quality obligations, it has been determined by the Water Board that post construction requirements consistent with the state's Construction General Permit need to be added to the scope of work for the Project.

The post construction storm water measures were not part of the bid scope and now need to be constructed and be operational for the Water Board to be able to issue the Notice of Termination required prior to occupancy of the building by the County.

Post construction storm water measures are currently being designed and will be located in the lower parking lot area with minimal impact to already constructed items. Final costs for the post construction storm water measures will not be known until the design is complete. The construction contingency amendment requested in the amount of \$2,000,000 includes estimated funds to pay for this unbudgeted item that is estimated to cost \$150,000 or less.

##### Soft Costs:

##### c. County Project Oversight:

At project inception, the County staff oversight budget was set at \$275,000 with Airports providing sole project oversight. A full-time Project Manager from Public Works was assigned to the project shortly after bid opening to help with construction and consultant oversight and is scheduled to remain on the project until completion. In addition, a Steering Committee with participants from various County Departments meets monthly to provide guidance on larger issues. The added oversight has exhausted the initial County oversight budget necessitating an amendment to the Soft Cost budget in the amount of \$450,000 to maintain the current level of oversight and to enable County staff to execute the transition plan described in Section III.a above.

## **OTHER AGENCY INVOLVEMENT/IMPACT**

The FAA is funding a majority of the Project and also provides oversight. A Steering Committee was established for this project and is actively involved in providing guidance related to project budget and cash flow needs. The Steering Committee participants include representatives from Airports, Public Works, Auditor-Controller-Treasurer-Tax Collector, County Administrative Office, County Counsel and the Construction Manager.

County Counsel is providing legal guidance on all aspects of the Project with Public Works and Airports jointly managing it.

## **FINANCIAL CONSIDERATIONS**

Total project expenses through October 2016, as noted in Section II above total \$18,335,332 and include expenses for construction, professional consultant support and County oversight. Section III identifies the need to amend consultant contracts and Section IV identifies the need to amend the construction contingency and the soft cost budget. This total budget amendment request is for \$4,050,000 and is broken down as follows:

Consultant Contracts Amendments	\$1,600,000
Construction Contingency Amendment	\$2,000,000
Soft Costs	<u>\$ 450,000</u>
Total	<b>\$4,050,000</b>

The FAA has confirmed that costs incurred during construction for extra work beyond the original contract scope are eligible for reimbursement with additional grant funding as long as the extra work is necessary for the completion of the Project. FAA policy does allow for reimbursement of costs related to amending professional services contracts. However, reimbursement requests can only be made after the expense for extra work or contract amendments is incurred. The effective rate at which eligible costs are reimbursed is approximately 75.57% and is illustrated in Exhibit 2 for extra costs already incurred by the Project, and already deemed eligible and reimbursable by the FAA. Expenditures for extra costs are payable with construction contingency funds until reimbursement is issued after Project completion.

The remaining 24.43% of non-reimbursed costs for eligible items needs to be financed by the County. Of the County's 24.43% share 13.43% of it is eligible for repayment with future passenger facility charges (PFC's) leaving 11% (\$445,500) as the County's local share. Expenses for non-eligible items need to be financed entirely by the County. Therefore, the source of the estimated local share amount is recommended to be Airports Fund Balance, with a loan to the Airport from the Tax Reduction Reserve Fund for remaining amounts needed based on FAA eligibility. This is consistent with the Tax Reduction Reserve Fund being used as the financing source for any amounts not covered by the FAA as part of the original Board item to approve the project.

At the time the project was approved, Airports was unable to contribute toward the local share of costs in the original funding package, and it was understood that the Tax Reduction Reserve Fund would serve as an internal financing mechanism which would enable the project to move forward. At this time, it is determined that Airports has sufficient fund balance available to contribute to the minimum local share estimate of \$445,500 for the budget amendment request.

Airports and Public Works are jointly requesting authorization of the budget adjustment to the Airport-SLO-Construction Passenger Terminal Project (WBS 330023).

## **RESULTS**

Acceptance of the recommended action will provide the necessary project budget to continue progress towards the completion of the new passenger terminal at the County of San Luis Obispo Regional Airport. The new terminal will last for decades to come and will enhance the viability of passenger air service to and from the County of San Luis Obispo into the future. When complete, the new terminal will enable County Airports to more effectively meet changing security requirements, airline needs and customer expectations.

## **ATTACHMENTS**

1. Attachment 1: Site Map
2. Attachment 2: Change Order and Construction Contingency Tracking